



**Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001**

19 September 2012

By email

**Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland
– Issues Paper, August 2012**

Dear Mr Parmenter,

AGL welcomes the opportunity to comment on the Queensland Competition Authority *Issues Paper – Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland* (the Issues Paper).

As a leading investor in renewable energy and one of the largest energy retailers in Australia, AGL Energy (AGL) is well placed to comment on the Issues Paper. AGL operates across the supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation. AGL is Australia's largest private owner, operator and developer of renewable generation in Australia. AGL is also a significant retailer of energy with 3.5 million electricity and gas customers. AGL is able to provide perspectives in relation to feed-in tariffs as both an entity that sells and installs solar PV units and a large retailer of electricity and gas.

AGL is of the view that due to the risks associated with further regulation of the Queensland retail energy market that there is no need for the Authority to regulate the amount that retailers offer solar PV customers for their exports. The range of current market offers for solar PV premiums (i.e. 4 – 8 c/kWh) demonstrates the competitive nature of the market. If the Authority intends to implement a regulatory mechanism relating to solar PV premium offers, AGL proposes that the Authority publish a voluntary benchmark or benchmark range which is considered to be a 'fair and reasonable' value that a retailer would offer a customer during a specified period.

If you have any further questions, please contact myself or Andrew Dudgeon [REDACTED]

Yours sincerely,

Elizabeth Molyneux
Head of Regulated Pricing

Issues Paper Section 3. - Fair and Reasonable value for PV exports



3.1 Defining fair and reasonable

Due to the diversity of electricity retailers exposed to any potential solar PV feed-in tariff (FiT) scheme, the value of solar PV exports will not be exactly the same for all retailers. Retailers will have a variety of electricity supply options available and it is likely that solar PV customers across the State will be on different types of retail electricity contracts i.e. some will be on market contracts and some will be on notified price contracts. This means that if the solar FiT premium is set too high relative to a retailers supply options then this could result in a disincentive for retailers to enter into contracts with customers with solar PV systems. Further discussion of the appropriate regulatory mechanism is provided in *Issues Paper - Section 4* below.

AGL agrees with the Authority's view that the potential benefits or costs of PV exports to distributors should not be considered in assessing the value of a retailer-funded FiT premium, instead any impacts should be reflected in network charges which retailers are expected to pass through to customers. In addition, these benefits and/or costs are difficult to accurately calculate and apply on a uniform basis. For example, the potential network benefits are unlikely to be system-wide and in other jurisdictions distributors have reported that the recent installation of a large number of solar PV systems have resulted in additional expenditure to ensure system stability.

3.2 Estimating the fair and reasonable value of PV exports

As noted in the covering letter, AGL is of the view that because the retail electricity market is competitive, and retailers offer a range of voluntary FiT premium amounts, there is no need for the Authority to regulate this aspect of the market. If the Authority is minded to implement a mechanism to improve the competitiveness of solar PV FiT premium offers then AGL suggests the Authority publish a voluntary benchmark or benchmark range which is considered to be a 'fair and reasonable' value that a retailer would offer a customer during a specified period.

The Authority suggests that a 'fair and reasonable' value for solar PV exports can be determined by the difference between the price a retailer can charge for a unit of electricity and the costs it cannot avoid associated with a unit of solar PV exports i.e. 'avoided cost' approach. As discussed earlier, because not all customers are on notified prices, and retailers do not face the same cost structures, then basing the value on the 'avoided cost' for retailers will not represent the value to all retailers.

AGL note that the 'avoided cost' approach is based on the assumption that currently small customer solar PV import/exports are treated as part of the Energex NSLP. If this assumption is changed and solar PV import/exports are removed from the NSLP then the value of the exports will have limited relevance to the NSLP.

As part of the 'avoided cost' approach, the Authority suggests that the allowance in the notified price for retail margin should not be included in the FiT value, but the allowance for head room should be included in the FiT value. On the face of it this approach appears to balance retailer and customer interests. However, in circumstances where the customer receives a market contract rate and the headroom has been utilised by the retailer to deliver a competitive offer the retailer would not have 'avoided' this amount. It also attributes a greater value to this energy than the energy generated from other sources. The retail margin is a return to compensate retailers for risk so it would not be appropriate that it is 'passed on' to the PV exporters who do not bear this risk.

Issues Paper Section 4. - Implementing a fair and reasonable tariff for PV exports



4.1 Form of regulation

The Authority has considered that if the market is “found to be healthy, with good levels of consumer knowledge and minimal barriers to switching” then no regulatory intervention or guidance would be required to establish the fair and reasonable value of solar feed-in tariffs. AGL is of the view that there is a strong case for the Authority to resist regulating this part of the retail market, or otherwise pursue a form of ‘light-handed’ (i.e. voluntary benchmark) regulation of feed-in tariffs which can co-exist with the current notified price regime in the Energex area.

AGL currently offers a voluntary FiT premium for solar PV exports of 8 c/kWh which is at the high-end of the current range of retailer FiT premiums offered in Queensland. As noted earlier, retailers will have different drivers and cost structures which lead them to offer different FiT premium amounts. The range of current FiT premium offers demonstrates that the market is working effectively without regulation.

In this context, AGL again highlights the risk involved with regulating a mandated solar PV FiT value. If the mandated value is too high, retailers will incur higher costs with solar PV customers and this in turn will create an incentive for retailers to avoid customers with solar PV. In such cases, customers will be unable to see the benefits of competition.

AGL is of the view that regulatory intervention or guidance is not required to set to value of solar PV exports. If the Authority intends to be involved in the setting of a solar PV FiT value, AGL proposes that the Authority publish a voluntary benchmark value, or range of values, that a retailer should offer a customer.

4.2 Metering arrangements

AGL is concerned that making a gross metering arrangement an eligibility requirement for accessing a solar PV FiT in Queensland raises a number of issues. It is not clear in the Issues Paper whether the Authority has ruled out changing the metering requirement for existing SBS participants. As a general principle, AGL does not support the application of regulation retrospectively. In this case, due to the additional costs and risks that would be associated with changing the metering requirements for existing SBS participants AGL has assumed that the Authority is only considering changing the SBS metering options for new participants.

Under a gross metering arrangement a solar PV customer’s imports are netted against exports to the grid. Therefore, using an ‘avoided cost’ approach, from a retailer’s perspective there is no difference in the financial impact on the retailer between a gross or net metered arrangement. AGL currently pays a single voluntary FiT premium of 8 c/kWh to customers with either gross or net meters. However, AGL recognises that from a customer’s or distributor’s perspective the financial impact under each metering arrangement may be different.

AGL is of the view that customers would be best served by a national approach to FiT regulation. Currently, the majority of State regulated FiT schemes are operated on a net metered basis. Any move to a gross metered FiT in Queensland could impede the transition to a nationally consistent FiT approach. Ensuring any new regulation does not disrupt the transition to a national FiT approach should be a key consideration of any reform in this area.

The Authority argues that because network pricing for solar PV customers is typically not cost reflective therefore a net FiT exacerbates cross subsidisation by other network customers. AGL does not consider it should not be the role of a retailer-funded solar FiT premium to address non cost reflective network pricing.



4.3 Review of the fair and reasonable value

If the Authority decides to implement a mechanism which requires publishing a benchmark solar PV FiT value/s, voluntary or otherwise, based on an 'avoided cost' approach using notified prices, then it would be logical for this FiT value to be updated annually in-line with notified prices. If the value is linked to notified prices there is no need to provide further flexibility to review the amount outside of this period.

Issues Paper Section 5. - Ongoing costs of the Solar Bonus Scheme

5.2 Equitable sharing of Scheme costs

The Authority recognises that while requiring retailers to contribute to the costs of the existing Solar Bonus Scheme (SBS) could reduce the impact of the scheme on all customers' bills, if a contribution was mandatory then any voluntary retail market offerings would be withdrawn or adjusted. AGL point to the experience of customers and retailers in NSW where the State Government mandated a retailer contribution to minimise the costs of the Solar Bonus Scheme and retailers adjusted their voluntary premiums accordingly. If a mandatory retailer contribution to the SBS was required in Queensland the outcome would be the same as in NSW. AGL highlights to the Authority the importance of ensuring that customers have access to open and transparent information regarding any retrospective changes to the SBS.